



## MESSAGE FROM THE SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

I am pleased to submit to the U.S. Congress and the Secretaries of State and Defense the ninth Quarterly Report from the Special Inspector General for Iraq Reconstruction (SIGIR).

As this year of transition in Iraq reconstruction unfolds, U.S.-funded projects are rapidly being completed and transferred to Iraqi management and control. Within that context, SIGIR identifies, in Section 1 of this Report, five critical issues the resolution of which will help advance Iraq toward economic prosperity and democratic success:

- Improve Infrastructure Security—by intensifying efforts to ensure that Iraq can secure its essential energy infrastructure.
- Close the Reconstruction Gap—by providing funds for sustaining Iraq's infrastructure and developing Iraqi capacities to manage projects and programs.
- Bolster Anticorruption Efforts—by empowering and enabling Iraq's incipient anticorruption institutions through training and funding.
- Energize the Oil and Gas Sector—by stimulating and sustaining investment in this sector, which is the key to Iraq's future prosperity.
- Increase International Donor Participation—by engaging donor nations to participate more actively in the next phase of Iraq's relief and reconstruction.

Section 2 of this Report updates SIGIR's previous reviews of Iraq's essential service sectors—oil and gas, electricity, and water—and provides initial reports on the following sectors: security; transportation and communications; health care; and democracy, education, and private sector development. Taken together, these sector reviews provide, for the first time, a comprehensive and detailed picture of the activities, outputs, and outcomes arising from the enormous U.S. investment in Iraq's infrastructure. Despite certain setbacks, chiefly caused by security problems, the overall picture conveys a sense of substantial progress in the relief, recovery, and reconstruction of Iraq.

Section 3 of this Report provides summaries of SIGIR audits, inspections, and investigations performed this quarter. Notable among the audits is a performance review of the contract to construct primary health care centers across Iraq. As the audit notes, both the contractor and the U.S. government's oversight failed to meet expectations. After \$186,000,000 had been spent, only six health care centers were complete. Fourteen more will be completed by the contractor, and the remaining facilities, which are partially constructed, will have to be completed by other means. SIGIR performed five inspections of selected health care centers covered by this contract, and, at each facility, SIGIR inspectors found serious deficiencies.

SIGIR also audited "Task Force Shield" this quarter, a program designed in September 2003 to build Iraq's capacity to protect its oil and gas and electrical infrastructures. The audit documents significant shortcomings in the program and concludes that it failed to meet its goals because it was

burdened by a lack of clear management structure and poor accountability. There were also indications of potential fraud, which are now under review by SIGIR investigators.

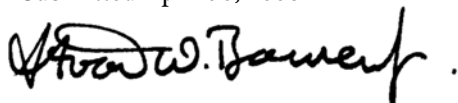
SIGIR inspectors continued to meet their mission this quarter, which is to visit project sites from every sector and geographical region in Iraq and report on the quality of the work performed. The 13 on-site project assessments in this Report include positive reviews of the work performed at the Mosul Airport, the Erbil electrical transformer project, and the Dahuk primary school, and problematic reviews regarding construction at the Kirkuk airport and the Ninewa village roads project. Detailed inspection reports of these and other sites visited, with accompanying photographs, are in Section 3.

SIGIR's investigators continued work on more than 70 cases in Iraq and the U.S., combating and deterring fraud. During this quarter, a U.S. contractor and a former Coalition Provisional Authority (CPA) regional comptroller pleaded guilty to charges of money laundering, bribery, and conspiracy; others have been arrested in this widening case that involves corruption in CPA's south-central regional office during 2003-2004. In March, SIGIR investigators also arrested a contractor for bribery in an undercover sting operation executed in Iraq.

This Report also contains a thorough review of the history and status of investments in Iraq's relief and reconstruction by non-U.S. donor nations and international institutions, as well as a summary of Iraq's current debt situation. SIGIR's Lessons Learned initiative made progress this quarter toward the publication of the contracting report, which will be out next quarter. The Lessons Learned forum on program and project management was held in April, and that report will be out in the summer of 2006.

I am gratified to report that SIGIR's dedicated auditors, inspectors, and investigators remain on the case in Iraq and the U.S. SIGIR continues to oversee the American taxpayers' investment by providing meaningful oversight that promotes efficiency, enforces accountability, and seeks to serve the interests of the overall success of U.S. relief and reconstruction efforts in Iraq.

Submitted April 30, 2006

A handwritten signature in black ink, appearing to read "Stuart W. Bowen, Jr.", followed by a period.

Stuart W. Bowen, Jr.